

37-1110 TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

<b>RECEIVED</b>
<del>GENERAL PURPOSE FINANCIAL STATEMENTS</del>
<del>AND SUPPLEMENTARY INFORMATION</del>
✓ AUG - 3 2004
Year Ended March 31, 2004
LOCAL GOVT & FINANCE DIV.

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of Nottawa	<b>County</b> Isabella
<b>Audit Date</b> March 31, 2004	<b>Opinion Date</b> July 7, 2004	<b>Date Accountant Report Submitted to State:</b> July 7, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

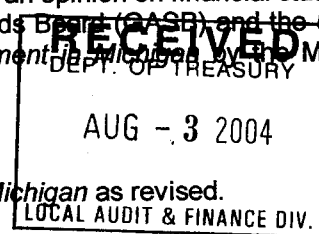
We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |  |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).   |



We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686	<b>City</b> Bay City	<b>State</b> MI	<b>Zip</b> 48707
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.			

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

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# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

July 7, 2004

To the Township Board  
Township of Nottawa  
Isabella County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Nottawa, Isabella County, Michigan, as of March 31, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of Nottawa's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Nottawa, Isabella County, Michigan, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of Nottawa, Isabella County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS  
March 31, 2004

EXHIBIT A

	<u>Governmental Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Account Group General Fixed Assets</u>	<u>Total (Memorandum Only)</u>
<u>Assets</u>	<u>General</u>	<u>Agency</u>		
Cash in bank	516 763 66	653 59	-	517 417 25
Due from other funds	653 59	-	-	653 59
Land and land improvements	-	-	125 691 76	125 691 76
Building	-	-	89 099 57	89 099 57
Equipment	-	-	257 093 04	257 093 04
<b>Total Assets</b>	<u>517 417 25</u>	<u>653 59</u>	<u>471 884 37</u>	<u>989 955 21</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	1 135 30	-	-	1 135 30
Due to other funds	-	653 59	-	653 59
<b>Total liabilities</b>	<u>1 135 30</u>	<u>653 59</u>	<u>-</u>	<u>1 788 89</u>
Fund equity:				
Investment in general fixed assets	-	-	471 884 37	471 884 37
Fund balances:				
Unreserved:				
Undesignated	516 281 95	-	-	516 281 95
<b>Total fund equity</b>	<u>516 281 95</u>	<u>-</u>	<u>471 884 37</u>	<u>988 166 32</u>
<b>Total Liabilities and Fund Equity</b>	<u>517 417 25</u>	<u>653 59</u>	<u>471 884 37</u>	<u>989 955 21</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B  
Page 1

	Total (Memorandum Only) General Fund
Revenues:	
Property taxes	45 590 67
State revenue sharing	161 149 50
Interest	7 001 78
Donations	40 501 27
Miscellaneous	6 465 81
Total revenues	<u>260 709 03</u>
Expenditures:	
Legislative:	
Township Board	6 150 00
General government:	
Supervisor	13 198 00
Election	547 33
Accounting and auditing	1 400 00
Assessor	8 000 00
Clerk	8 871 70
Board of Review	85 00
Treasurer	13 274 25
Township hall and grounds	1 111 27
Cemetery	7 192 56
Unallocated	10 018 67
Public safety:	
Liquor law enforcement	1 400 00
Fire protection	49 918 30
Public works:	
Highways and streets	79 396 60
Street lighting	5 026 90
Drains	5 642 64
Culture and recreation:	
Parks and recreation	14 550 19
Library	500 00
Other:	
Insurance	3 391 00
Pension	6 606 60

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES  
Year Ended March 31, 2004

EXHIBIT B  
Page 2

	Total (Memorandum Only) <u>General Fund</u>
Total expenditures	<u>236 281 01</u>
Excess of revenues over expenditures	24 428 02
Fund balance, April 1	<u>491 853 93</u>
Fund Balance, March 31	<u><u>516 281 95</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

Year Ended March 31, 2004

EXHIBIT C  
Page 1

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Property taxes	43 755 99	45 590 67	1 834 68
State revenue sharing	150 000 00	161 149 50	11 149 50
Interest	5 000 00	7 001 78	2 001 78
Donations	20 000 00	40 501 27	20 501 27
Miscellaneous	<u>2 880 00</u>	<u>6 465 81</u>	<u>3 585 81</u>
Total revenues	<u>221 635 99</u>	<u>260 709 03</u>	<u>39 073 04</u>
Expenditures:			
Legislative:			
Township Board	30 700 00	6 150 00	(24 550 00)
General government:			
Supervisor	13 600 00	13 198 00	(402 00)
Elections	2 000 00	547 33	(1 452 67)
Accounting and auditing	1 400 00	1 400 00	-
Assessor	8 000 00	8 000 00	-
Clerk	10 100 00	8 871 70	(1 228 30)
Board of Review	1 200 00	85 00	(1 115 00)
Treasurer	14 150 00	13 274 25	(875 75)
Township hall and grounds	53 000 00	1 111 27	(51 888 73)
Cemetery	10 000 00	7 192 56	(2 807 44)
Unallocated	41 710 80	10 018 67	(31 692 13)
Public safety:			
Liquor law enforcement	1 400 00	1 400 00	-
Fire protection	58 518 30	49 918 30	(8 600 00)
Public works:			
Highways and streets	373 500 00	79 396 60	(294 103 40)
Street lighting	7 000 00	5 026 90	(1 973 10)
Drains	7 000 00	5 642 64	(1 357 36)
Culture and recreation:			
Parks and recreation	67 500 00	14 550 19	(52 949 81)
Library	500 00	500 00	-
Other:			
Insurance	4 200 00	3 391 00	(809 00)
Pension	<u>7 000 00</u>	<u>6 606 60</u>	<u>(393 40)</u>

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

Year Ended March 31, 2004

EXHIBIT C  
Page 2

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Total expenditures	<u>712 479 10</u>	<u>236 281 01</u>	<u>(476 198 09)</u>
Excess (deficiency) of revenues over expenditures	(490 843 11)	24 428 02	515 271 13
Fund balance, April 1	<u>490 843 11</u>	<u>491 853 93</u>	<u>1 010 82</u>
Fund Balance, March 31	<u>-</u>	<u>516 281 95</u>	<u>516 281 95</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Nottawa, Isabella County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and account groups that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Nottawa. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

Governmental Fund

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Account Group

General Fixed Assets Account Group

This account group presents the fixed assets of the local unit utilized in its general operations.

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2003 tax roll millage rate was .9653 mills, and the taxable value was \$47,283,647.00.

Fixed Assets

Purchases of fixed assets for all funds are recorded as expenditures in their respective funds at the time of purchase. They are also recorded at cost in the General Fixed Assets Group of Accounts as required by generally accepted accounting principles.

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The Township provides no postemployment benefits to past employees.

Note 2 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 2 – Deposits and Investments (continued)

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>517 417 25</u>
Amounts in the bank balances are without considering deposits in transit or uncleared checks.	
	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>417 443 73</u>
Total Deposits	<u>517 443 73</u>

The Township of Nottawa did not have any investments as of March 31, 2004.

Note 3 – Changes in General Fixed Assets

A summary of changes in general fixed assets follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/04</u>
Land and land improvements	125 691 76	-	-	125 691 76
Building	89 099 57	-	-	89 099 57
Equipment	<u>257 093 04</u>	<u>-</u>	<u>-</u>	<u>257 093 04</u>
Totals	<u>471 884 37</u>	<u>-</u>	<u>-</u>	<u>471 884 37</u>

Note 4 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

**Note 5 – Pension Plan**

The Township has a defined contribution pension plan covering all full-time employees. The Township contributes an amount of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2004, was \$6,606.60.

**Note 6 – Risk Management**

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 7 – Interfund Receivables and Payables**

As of March 31, 2004, the Township had the following interfund receivables and payables:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>653 59</u>	Current Tax Collection	<u>653 59</u>
Total	<u>653 59</u>	Total	<u>653 59</u>

**Note 8 – Building Permits**

The Township of Nottawa does not issue building permits. Building permits are issued by the County of Isabella.

**Note 9 – Total Columns on Combined Statements--Overview**

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

CURRENT TAX COLLECTION FUND -  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year Ended March 31, 2004

EXHIBIT D

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 3/31/04</u>
<u>Assets</u>				
Cash in bank	<u>635 34</u>	<u>1 360 262 85</u>	<u>1 360 244 60</u>	<u>653 59</u>
<u>Liabilities</u>				
Due to other funds	635 34	46 247 18	46 228 93	653 59
Due to other units	-	<u>1 314 015 67</u>	<u>1 314 015 67</u>	-
Total Liabilities	<u>635 34</u>	<u>1 360 262 85</u>	<u>1 360 244 60</u>	<u>653 59</u>



TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended March 31, 2004

EXHIBIT E  
Page 1

Township Board:	
Salaries	<u>6 150 00</u>
Supervisor:	
Salary	12 000 00
Miscellaneous	<u>1 198 00</u>
	13 198 00
Election:	
Wages	522 00
Miscellaneous	<u>25 33</u>
	547 33
Accounting and auditing	<u>1 400 00</u>
Assessor:	
Salary	<u>8 000 00</u>
Clerk:	
Salary	8 000 00
Miscellaneous	<u>871 70</u>
	8 871 70
Board of Review:	
Wages	<u>85 00</u>
Treasurer:	
Salary	11 850 00
Miscellaneous	<u>1 424 25</u>
	13 274 25
Township hall and grounds:	
Repairs and maintenance	444 00
Utilities	<u>667 27</u>
	1 111 27
Cemetery:	
Repairs and maintenance	2 063 30
Contracted services	4 935 00
Utilities	<u>194 26</u>
	7 192 56
Unallocated:	
Meetings and mileage	113 75
Payroll taxes	775 53
Dues	1 107 15

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended March 31, 2004

EXHIBIT E  
Page 2

Unallocated: (continued)	
Operating supplies and postage	
Miscellaneous	1 116 65
	<u>6 905 59</u>
Liquor law enforcement:	<u>10 018 67</u>
Wages	
	<u>1 400 00</u>
Fire:	
Contracted services	
	<u>49 918 30</u>
Highways and streets:	
Repairs and maintenance	
Miscellaneous	79 146 60
	<u>250 00</u>
	<u>79 396 60</u>
Street lighting:	
Utilities	
	<u>5 026 90</u>
Drains:	
Repairs and maintenance	
	<u>5 642 64</u>
Parks and recreation:	
Repairs and maintenance	
Contracted services	5 403 00
Utilities	8 975 00
	<u>172 19</u>
	<u>14 550 19</u>
Library:	
Contracted services	
	<u>500 00</u>
Insurance	
	<u>3 391 00</u>
Pension	
	<u>6 606 60</u>
Total Expenditures	<u>236 281 01</u>

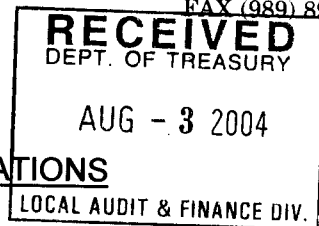
# **CAMPBELL, KUSTERER & CO., P.C.**

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## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**

July 7, 2004

To the Township Board  
Township of Nottawa  
Isabella County, Michigan

We have audited the financial statements of the Township of Nottawa, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Township of Nottawa in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the Township Board  
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For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

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### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Township of Nottawa will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the Township will be required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2004.

#### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants